

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-01
INR-10 NSAE-00 ICA-20 TRSE-00 XMB-04 OPIC-06
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07
CEA-01 AGRE-00 PA-02 L-03 H-02 ABF-01 /111 W
-----011398 211426Z /42

R 211335Z JUN 78
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC 7783
INFO AMCONSUL CALGARY
AMCONSUL HALIFAX
AMCONSUL MONTREAL
AMCONSUL QUEBEC
AMCONSUL TORONTO
AMCONSUL VANCOUVER
AMCONSUL WINNIPEG

UNCLAS SECTION 01 OF 02 OTTAWA 03093

DEPT. PASS CEA, TREAS, FRB

E.O. 11652:N/A
TAGS: EFIN, ECON, CA
SUBJECT: ECONOMIC DEVELOPMENTS: WEEK ENDING JUNE 16.

1. SUMMARY. SLOW TO SIDEWAYS GROWTH CONTINUES TO CHARAC-
TERIZE MUCH OF THE CANADIAN ECONOMY IN THE SECOND QUARTER.
INDUSTRIAL PRODUCTION FELL IN APRIL AND INDUSTRIAL CAPACITY
UTILIZATION FELL FOR THE FIRST QUARTER. CONSUMER PRICE
INCREASES HAVE PICKED UP, WHILE THE UNEMPLOYMENT RATE
REMAINED UNCHANGED IN MAY AT 8.6 PERCENT. THERE HAS BEEN
MODEST INDICATION OF MORE CONSUMER SPENDING AS RETAIL
SALES REVIVED SOMEWHAT IN APRIL, BUT ROOM FOR MORE PERSONAL
CONSUMPTION IS LIMITED AS RISE IN LABOR INCOME IN FIRST
QUARTER BARELY OUTDISTANCED INFLATION. CANADIAN DOLLAR
RECOVERED FROM SHARP DECLINE EARLY IN WEEK, BUT STILL
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FINISHED JUST BELOW PREVIOUS WEEK'S CLOSE. END SUMMARY.

2. AIB SUCCESSOR: CHAIRMAN OF ECONOMIC COUNCIL OF CANADA
(ECC) SYLVIA OSTRY, HAS ANNOUNCED THAT A NEW WAGE/PRICE
MONITORING AGENCY WILL BECOME OPERATIONAL BY FALL, 1978
AS SUCCESSOR TO THE ANTI-INFLATION BOARD. NEW BODY WILL BE
CALLED THE CENTER FOR THE STUDY OF INFLATION AND PRODUC-

TIVITY (CSIP) AND WILL FUNCTION AS A SEPARATE BODY WITHIN THE ECC. CSIP TO ISSUE REPORTS QUARTERLY AND CAN RECOMMEND SPECIFIC POLICY ACTIONS TO GOC, BUT WILL HAVE NO REGULATORY AUTHORITY AND WILL RELY PRIMARILY ON PUBLICALLY AVAILABLE INFORMATION.

3. SELECTION OF TOP CSIP OFFICIALS REFLECTS REGIONAL/ POLITICAL CONSIDERATIONS. CSIP WILL BE HEADED BY ROBERT DOUGLAS, FORMER SASKATCHEWAN DEPUTY FINANCE MINISTER. ASSOCIATE EXECUTIVE DIRECTOR WILL BE PATRICK ROBERT, A FRANCOPHONE AND FORMER ADVISOR TO QUEBEC GOVERNMENT.

4. SALES TAX ISSUE. QUEBEC FINANCE MINISTER PARIZEAU RENEGGED ON HIS EARLIER OFFER TO ACCEPT EITHER CDOLS 85 REBATE ON 1977 INCOME TAX OR CDOLS 85 CUT IN 1978 PLUS INTEREST. (SEE OTTAWA 2933). PQ NOW INSISTS ON DIRECT TRANSFER OF FUNDS TO PROVINCIAL GOVERNMENT IN 1978.

4. ECONOMIC INDICATORS:

-- INDEX OF INDUSTRIAL PRODUCTION SEASONALLY ADJUSTED (SA) DECLINED BY 0.2 PERCENT TO 126.2 IN APRIL. STRONGEST DECLINE WAS IN MINING, WHILE MANUFACTURING OUTPUT ROSE BY 1.2 PERCENT. PRODUCTION IN NON-DURABLE GOODS INDUSTRIES INCREASED BY 1.0 PERCENT IN MONTH; OUTPUT OF DURABLES ADVANCED BY 1.4 PERCENT.
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-- STATCAN INDEX OF CAPACITY UTILIZATION WAS 82.7 PERCENT IN FIRST QUARTER 1978, DOWN FROM 83.3 PERCENT IN FOURTH QUARTER LAST YEAR AND FAR BELOW PEAK UTILIZATION RATE OF 91.9 PERCENT RECORDED IN SECOND QUARTER, 1974. STATCAN FIGURES FOR FIRST QUARTER CONSISTENT WITH THOSE OF INDUSTRY TRADE & COMMERCE (SEE OTTAWA 2963) AND UNDERLINE FACT THAT WEAK DEMAND WILL CONTINUE AS MAIN DETERRENT TO INVESTMENT.

-- UNEMPLOYMENT RATE WAS 8.6 PERCENT IN MAY, UNCHANGED FROM LEVEL OF PREVIOUS TWO MONTHS. PARTICIPATION RATES RESUMED STRONG UPWARD CLIMB. (SEE OTTAWA 2989).

-- RETAIL SALES (SA) SHOWED RENEWED LIFE IN MAY, RISING BY 2.3 PERCENT TO CDOLS 5.7 BILLION IN MONTH. FOOD AND AUTO SALES SHOWED IMPORTANT GAINS. HOWEVER, MUCH OF INCREASE IN FOOD SALES REFLECTS HIGHER PRICES, RATHER THAN PICKUP IN VOLUME OF CONSUMPTION. MOST OBSERVERS DO NOT VIEW RECOVERY OF SALES IN APRIL AS PRECURSOR OF BURST IN CONSUMER ENTHUSIASM.

-- CONSUMER PRICE INDEX, NON-SEASONALLY ADJUSTED (NSA)

ROSE BY 1.4 PERCENT TO 173.6 IN MAY. MAY INDEX (NSA) STOOD 9 PERCENT ABOVE ITS MAY, 1977 LEVEL. FOOD PRICES CONTINUED TO PLAY DOMINANT INFLATIONARY ROLE (SEE OTTAWA 3020).
-- LABOR INCOME (SA) WAS CDOLS 10.6 BILLION IN MARCH, A 0.7 PERCENT INCREASE FROM FEBRUARY AND 8.4 PERCENT RISE FROM MARCH, 1977. ON NON-SEASONALLY ADJUSTED BASIS, LABOR INCOME ROSE 9.2 PERCENT IN FIRST QUARTER 1978 FROM FIRST QUARTER 1977, WHILE RISE (NSA) IN CPI AVERAGED 8.8 PERCENT OVER THIS PERIOD GIVING AN INCREASE OF 0.4 PERCENT IN REAL LABOR INCOME.

5. CAPITAL MARKETS: SHORT TERM INTEREST RATES CONTINUED SLOW UPWARD MOVEMENT IN WEEK. RATE ON THREE MONTH TREASURY BILLS WAS 8.24 PERCENT COMPARED WITH 8.23 PERCENT
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PREVIOUS WEEK. LONG TERM YIELDS SHOWED LITTLE CHANGE.
GOC TO FLOAT CDOLS 1 BILLION BOND ISSUE (DATED 1 JULY) ON

MONDAY, JUNE 19. BANK OF CANADA (BOC) EXPECTED TO PURCHASE AT LEAST CDOLS 400 MILLION OF TOTAL ISSUE. ONLY CDOLS 300 MILLION OF ISSUE REPRESENTS NEW MONEY, AS BULK OF PROCEEDS WILL BE USED TO REFINANCE OUTSTANDING DEBT.

6. THE MONEY SUPPLY (M1) STOOD AT CDOLS 21.3 BILLION IN MAY, AN 8.6 PERCENT SEASONALLY ADJUSTED ANNUAL RATE OF GROWTH OVER THE JUNE 1977 BASE PERIOD USED BY THE BANK OF CANADA. THIS PUT MONEY SUPPLY GROWTH BACK INTO THE TARGET RANGE OF 7 TO 11 PERCENT, UP FROM THE BELOW TARGET LEVEL OF 5.6 PERCENT IN APRIL.

7. EXCHANGE RATE: CANADIAN DOLLAR PASSED UNEVENTFUL WEEK. AFTER FALLING TO 89.06 U.S. CENTS ON MONDAY, DOLLAR RECOVERED LOST GROUND, BUT STILL FINISHED WEEK AT 89.29, UNCLASSIFIED

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DOWN SLIGHTLY FROM PREVIOUS WEEK'S CLOSE OF 89.36 U.S. CENTS. ENDERS

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Message Attributes

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